

Supplemental Appendix A*
Docket 5-DR-112
June 8, 2017

Issue 1: Does the Commission wish to exercise its discretion under Wis. Stat. § 227.41 and issue a declaratory ruling in this proceeding?

Issue Scope: Decisions under Wis. Stat. § 227.41 are entirely within the Commission's discretion; a declaratory ruling is not afforded as a matter of right. Declaratory rulings are based upon a set of facts. The Commission may consider a number of factors, including the scope of the Commission's jurisdiction and authority, when deciding whether to exercise its discretion.

Applicants submit that the Commission has general and ratemaking authority to issue the declaratory rulings regarding the prudence of the proposed transaction under Wis. Stat. §§ 196.02 and 196.03, and cited examples where the Commission has exercised this discretion. *See, e.g., In re Wis. Elec. Power Co.*, Docket No. 6630-DR-104, 2001 WL 1671064 (Pub. Serv. Comm'n of Wis. Oct. 17, 2001); *In re Wis. Pub. Serv. Corp.*, Docket No. 6690-DR-105, 2002 WL 32083055 (Pub. Serv. Comm'n of Wis. Nov. 8, 2002); *In re Wis. Pub. Serv. Corp.*, Docket No. 6690-DR-107, 2003 WL 22683461 (Pub. Serv. Comm'n of Wis. Nov. 12, 2003); *In re Kewaunee Nuclear Power Plant*, Docket No. 5-EI-136, 2005 WL 937257 (Pub. Serv. Comm'n of Wis. Apr. 21, 2005). There are also examples where the Commission has declined to grant such declarations. *See, e.g., In re Wis. Elec. Power Co.*, Docket No. 6630-EI-113, 2007 WL 2846904 (Pub. Serv. Comm'n of Wis. Sept. 25, 2007); *In re City of Columbus Water & Light Dep't*, Docket No. 1300-DR-100, 2006 WL 2474232 (Pub. Serv. Comm'n of Wis. June 26, 2006); *App. of Wis. Power & Light Co. for a Decl. Ruling on the Issues of the Revenue Requirement Treatment of Proposed Generation Plant*, Docket No. 6680-DR-106, 2000 WL 36274837 (Pub. Serv. Comm'n of Wis. Aug. 18, 2000). Applicants distinguish cases that raise potential concerns regarding federal preemption on the basis that the applicants have a choice among suppliers, including their future affiliate. *Pike Cnty. Light and Power Co. v. Pa. Pub. Util. Comm'n*, 465 A.2d 735 (1983); *Ky. W. Va. Gas Co. v. Pa. Pub. Util. Comm'n*, 837 F.3d 600 (3d. Cir. 1988).

Commission staff proposed a number of conditions that the Commission may wish to consider if it believes the conditions are necessary to ensure that any declaratory ruling issued by the Commission would be within the Commission's authority and consistent with Wis. Stat. § 227.41. These conditions include:

Proposed Condition 1: The declaratory rulings are strictly based on the set of facts established in this proceeding, are only valid to the extent that the set of facts remains in place, and are void to the extent that the set of facts changes.

Proposed Condition 2: The applicants are prohibited from incurring a charge under the proposed transaction except in accordance with Wisconsin law or from seeking to reflect in rates any cost incurred or revenue earned under the proposed transaction except as permitted by the Commission in this docket.

* This Supplemental Appendix A includes comments received from applicants and updates Appendix A attached to the Commission staff memorandum dated May 30, 2017 that was prepared prior to the receipt of reply comments.

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Proposed Condition 3: The applicants must include provisions in the storage service agreements stating that the applicants have entered into them with their affiliate BGS or BGH voluntarily and are not obligated to make any purchases.

Proposed Condition 4: The applicants are prohibited from asserting that the Commission is preempted from assessing the reasonableness and prudence of the applicants' decision to enter into the service storage agreements with BGS or BGH or related matters in the future.

Proposed Condition 5: The applicants are required to file with the Commission the storage service agreements with their affiliate BGS or BGH before filing them with FERC in order for the Commission to determine, with the cooperation of the applicants, whether it has jurisdiction under Wis. Stat. § 196.52.

PARTY POSITIONS	AMOUNT*	TRANSCRIPT REFERENCES
<p>Applicants:</p> <p>Applicants support Commission Alternative 3 below</p> <p>Proposed Condition 1: Applicants agree to the proposed condition.</p> <p>Proposed Condition 2: Applicants oppose this condition because the Commission would be preempted from determining the amount that may be charged or recovered under a FERC-authorized tariff. As explained in Applicants' Brief on Jurisdiction and Scope, the Commission has the authority to determine whether or not it is reasonable for the Applicants to enter into these FERC jurisdictional arrangements,</p> <p>Proposed Condition 3: Applicants agree with this proposed condition with the exception of the phrase "and are not obligated to make any purchases." Under the storage service agreements, the utilities will be obligated to pay for capacity they are allocated. If this phrase is deleted, Proposed Condition 3 is acceptable to Applicants.</p> <p>Proposed Condition 4: The Applicants agree to this condition as long as it</p>	<p>N/A</p>	<p>Applicants' Comments on Staff Memorandum, at 8-10; Applicants' Reply Comments, at 7-10; Applicants' Brief on Jurisdiction and Scope.</p>

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<p>is understood that the Commission only has jurisdiction to assess the Applicants' decision to enter into the storage service agreements. Applicants believe that Proposed Condition 4 is intended to affirm the Commission's jurisdiction to issue the requested declaratory ruling in this docket.</p> <p>Proposed Condition 5: The Applicants request that the Commission make its determination in this docket. The Applicants have already agreed that it is appropriate to make a determination under Wis. Stat. § 196.52 whether the Applicants' decision to enter into the storage service agreements is reasonable and prudent. Applicants would agree to provide copies of the final agreements to ensure conformity with the Commission Order if the Commission issues the requested declaration that the Applicants' decision to enter into the storage service agreements is reasonable.</p>		
<p>CUB: Supports Proposed Conditions 1-5.</p>		<p>CUB Comments on Memorandum, at 10-11.</p>
<p>ICE: Raises concerns that "the jurisdiction of the Commission is being eroded by shifting transactions and assets outside of the regulatory control of the Commission . . ." and that "any declaratory ruling by the Commission should include a condition that all ratepayer protections provided by Wis. Stat. § 196.52(4) and Wis. Stat. § 196.52(5) will apply to the agreement going forward"</p>		<p>ICE Comments, at 1.</p>

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Commission Staff: The Commission may wish to consider imposing some or all of Proposed Conditions 1 through 5 if it believes any such conditions are necessary to ensure that any declaratory ruling issued by the Commission would be within the Commission's authority and consistent with Wis. Stat. § 227.41. Proposed Condition 2 is not preempted because it does not require a Commission determination that the rates incurred under the contracts are just and reasonable. Proposed Condition 3 simply memorializes the applicants' representation that the utility affiliates truly have a choice in entering into the contracts. Proposed Condition 4 protects the Commission from a future assertion that it is not preempted in the future from reviewing the reasonableness or prudence of the transaction. Proposed Condition 5 is also not preempted because the Commission does have jurisdiction under Wis. Stat. § 196.52, just as it did in docket 5-AE-208, because the applicants and BGS or BGH will be affiliated interests.		Commission Agenda Memorandum dated May 1, 2017 (Agenda Memo), at 11-14; Commission Agenda Memorandum dated May 30, 2017 (Supp. Agenda Memo), at 4-6.
COMMISSION ALTERNATIVES		
Alternative One: Issue a declaratory ruling without Proposed Conditions 2 through 5.		
Alternative Two: Issue a declaratory ruling with Proposed Conditions 2, 3, 4 and/or 5.		
Alternative Three: Issue a declaratory ruling with Proposed Conditions 1, 3 (as modified by Applicants), 4 and 5.		
Alternative Four: Decline to issue the requested declaratory ruling.		
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Issue 2: Is it reasonable and prudent for the applicants to enter into the long-term storage service and interstate gas transportation agreements?

Issue Scope: When deciding whether it is reasonable and prudent for the applicants to enter into the long-term storage service and interstate gas transportation agreements, the Commission may wish to consider the assumptions and results of the applicants' economic analysis, as well as the balance of risk between the holding company, the applicants, and the ratepayers of the proposed transaction as structured.

Applicants submit that the economic analysis demonstrates that the proposed transaction will provide \$200 million in NPV savings to customers. Commission staff did not identify any deficiencies in the framing of the economic analysis, the quality of the financial model, or the quality of the data used. Commission did, however, identify concerns the Commission may wish to consider regarding the discount rate, the 60-year length of the storage contracts, and the cost escalation rate.

Commission staff has proposed a number of conditions that the Commission may wish to consider if it finds it necessary to ensure that the applicants are not inappropriately guaranteeing the risk of the holding company investment in a non-regulated asset consistent with Wis. Stat. §§ 196.52, 196.795(5)(d), and 196.795(5)(f), and that any risk is balanced appropriately. These proposed conditions include:

Proposed Condition 6: Under its authority in Wis. Stat. § 196.52, the Commission will reassess reasonableness of the proposed gas storage contracts every 10 or 15 years based on any potential changes to the natural gas market, the applicants' industry, the applicants' customer needs, and the regulatory, business, and legal environment within which the applicants operate.

Proposed Condition 7: The applicants are required to include provisions in the gas storage contracts allowing for cancellation or renegotiation if events materially affecting the economic savings of the proposed transaction occur.

Proposed Condition 8: The applicants are required to periodically submit information that would allow Commission staff to verify that the proposed transaction is in fact creating customer savings.

Proposed Condition 9: The Commission will reassess the reasonableness of recovering gas storage contracts costs through the PGACs under the used and useful standard every 3 years.

The Commission may wish to defer a decision on Issue 2 until after its discussion of Issues 2.A., 2.B., and 2.C.

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PARTY POSITIONS	AMOUNT*	TRANSCRIPT REFERENCES
<p>Applicants:</p> <p>Applicants support Commission Alternatives 1 or 2 below.</p> <p>It is reasonable and prudent for the applicants to enter into the long-term storage service and interstate gas transportation agreements. While the Applicants would have preferred to acquire the Bluewater facilities directly as a traditional rate base investment and explored doing so, there were major challenges to structuring the transaction in a manner that would have received FERC approval and preserved customer benefits. Even after “stress testing” the economic analysis applying alternative assumptions unfavorable to the proposal, Commission staff found that the proposal will benefit customers in all but the most extreme worst case scenarios. All of the proposed conditions are unnecessary and would be inconsistent with the intent and structure of the proposal and would jeopardize WEC’s ability to close on the transaction. The proposed conditions would inappropriately shift risk and responsibilities to WEC and its shareholders without any corresponding benefit.</p> <p>Proposed Conditions 6 and 7: Applicants would not undertake this investment with storage service agreement terms of less than 30 years. What was intended to be a public utility investment would take on the attributes of a non-utility investment, requiring a higher return for recovery of the capital over a much shorter term. The resulting increased costs to customers under a contract of less than 30 years would reduce or eliminate any of the potential savings. Applicants therefore offer Alternative Conditions 1-3 (below) to replace Proposed Conditions 6 and 7. Proposed Conditions 6 and 7 are contrary to the structure and intent of the proposed transaction, which is designed to mirror a utility investment and to dedicate the Bluewater facility to public utility service. In addition, these proposed conditions run afoul of Wisconsin’s prudent investment standard</p>	N/A	Applicants’ Comments on Staff Memorandum, at 2, 3-4, 13-17; Applicants’ Reply Comments, at 10-17.

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and are preempted because they would dictate the terms of FERC-jurisdictional contracts and would assert Commission authority to disallow the Applicants' recovery of costs incurred thereunder.

Proposed Condition 8: Applicants agree to this proposed condition.

Proposed Condition 9: Applicants do not object to a future reassessment of using the PGAC for recovery of the costs of the Bluewater investment, but that reevaluation should not be done until a rate proceeding. The Applicants propose **Alternative Condition 4** (described below). The Applicants oppose this proposed condition as it is currently written, and in particular its required application of the used and useful standard, which would run afoul of Wisconsin's prudent investment standard.

Applicants offer Alternative Conditions to further ensure that their customers bear the same balance of cost, risk and benefit that the applicants do with a utility-owned asset. Specifically:

Alternative Condition 1: The Gas Utilities agree to amend the gas storage contracts to shorten the term to 30 years. The recovery of the Bluewater investment will continue to be based on a 60-year depreciable life.

Alternative Condition 2: The Gas Utilities agree to amend the gas storage agreements to provide for their approval of an annual Bluewater operating and maintenance cost budget, which will be reflected in each Gas Utility's annual gas supply plan filed with the Commission.

Alternative Condition 3: The Gas Utilities agree to amend the gas storage agreements to provide that upon their approval of a significant capital expenditure exceeding \$2.5 million, the Gas Utilities' obligation to compensate BGS for the expenditure will be limited to BGS's actual

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<p>expenditure or the approved amount plus 10%, whichever is less.</p> <p>Alternative Condition 4: The Gas Utilities shall recover their costs incurred under the gas storage agreements under their PGACs until their next base rate cases. At that time the Commission will review whether recovery through the PGAC is appropriate.</p> <p>With respect to reducing the threshold for capital expenditures to \$2.5 million instead of \$7.5 million, the Commission should make clear in its order that it is making no determination as to the application of the cost threshold to individual utilities under Wis. Stat. § 196.49(5g)(ar)1m. The Commission should also confirm the reasonableness and prudence of the applicants entering into the proposed gas storage and transportation arrangements without conditioning the applicants' future recovery of their costs.</p>		
<p>CUB: Commission staff's review of the applicants' economic analysis indicates a possibly significantly lower NPV than the \$200 million base case calculated by the applicants. If correct, the risks to ratepayers may not be justified by the NPV. Supports Proposed Conditions 6, 7 and 8.</p>		<p>CUB Comments on Memorandum, at 3, 7.</p>
<p>Commission Staff: The Commission may wish to consider the imposition of some or all of Proposed Conditions 6 through 9 if it believes any such conditions are necessary to ensure that the risk of the transaction is balanced appropriately. WEC, not the applicants, is purchasing the Bluewater facility. Even if the applicants were purchasing the Bluewater facility directly, it would still be reasonable for the Commission to impose such conditions because the Commission has flexibility in addressing non-used and useful assets.</p>		<p>Agenda Memo., at 16-22; Supp. Agenda Memo., at 2-3, 6-10.</p>
<p>COMMISSION ALTERNATIVES</p>		
<p>Alternative One: Declare that it is reasonable and prudent for the applicants to enter into the long-term storage service and interstate gas transportation agreements without the imposition of any conditions.</p>		
<p>Alternative Two: Declare that it is reasonable and prudent for the applicants to enter into the long-term storage service and</p>		

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interstate gas transportation agreements, but impose one or more of the applicants' proposed modified or alternative conditions.
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Alternative Three: Declare that it is reasonable and prudent for the applicants to enter into the long-term storage service and interstate gas transportation agreements, but impose one or more of the conditions proposed by Commission staff.

Alternative Four: Declare that it is not reasonable and prudent for the applicants to enter into the long-term storage service and interstate gas transportation agreements.

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Issue 2.A.: Is the discount rate assumed by the applicants reasonable?		
Issue Scope: Applicants used a blended weighted average cost of capital (WACC) based on their most recent rate cases, which is equal to 7.19 percent.		
PARTY POSITIONS	AMOUNT*	TRANSCRIPT REFERENCES
<p>Applicants:</p> <p>Applicants support Commission Alternative 1 below.</p> <p>The use of the blended WACC is reasonable. A marginal discount rate would be appropriate only if WEC or the Gas Utilities were proposing to acquire Bluewater and continue operating it to provide storage to third parties in interstate commerce. Because the Gas Utilities are proposing to dedicate Bluewater to retail public utility service, a marginal discount rate overstates the risk associated with the acquisition.</p>	N/A	Applicants Comments on Staff Memorandum, at 11.
<p>Commission Staff: The blended 7.19 percent WACC may be understated. The marginal WACC may be a more appropriate discount rate to be used in this economic analysis because it represents the risks of the investment in its full potential, rather than those of any investor or those of the specific use to which Bluewater will be put; reflects the opportunity costs WEC incurs in implementing the proposed transaction; and reflects the full range of Bluewater's alternative uses and, in turn, its highest and best use. If the Commission has concerns about the discount rate used, it could consider imposition of one or more of the Proposed Conditions.</p>		Agenda Memo., at 16-18; Supp. Agenda Memo., at 6-10.
COMMISSION ALTERNATIVES		
Alternative One: Find that the discount rate assumed by applicants is reasonable.		
Alternative Two: Find that the discount rate assumed by the applicants is not reasonable, and impose Proposed Condition 6, 7, 8 and/or 9 to balance risk.		
Alternative Three: Decline to make a specific finding as to the reasonableness of this assumption, but consider this, among other factors, when determining whether it is reasonable and prudent for the applicants to enter into the long-term storage service and interstate gas transportation agreements.		
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Issue 2.B.: Is the 60-year length of the gas storage contracts reasonable?		
Issue Scope: The proposed term of the gas storage service agreements is 60 years.		
PARTY POSITIONS	AMOUNT*	TRANSCRIPT REFERENCES
<p>Applicants:</p> <p>Applicants support Commission Alternatives 1 or 2 below.</p> <p>The proposed 60-year term is reasonable because it mirrors utility ownership and reflects the fact that the Bluewater facility will be dedicated to the public utility service over its operable life. If the Commission determines a shorter term is reasonable, and although the Applicants argue that doing so would expose customers to greater risk, the Applicants have proposed Alternative Condition 1: “The Gas Utilities agree to amend the gas storage contracts to shorten the term to 30 years. The recovery of the Bluewater investment will continue to be based on a 60-year depreciable life.” Applicants opposed Commission staff’s proposed conditions.</p>	N/A	Applicants’ Comments on Staff Memorandum, at 3; Applicants’ Reply Comments, at 14-15.
<p>Commission Staff: 60 years is a significantly long period of time and this may create greater uncertainty and risk. Recovering the full investment in the Bluewater facility accelerates depreciation, would render the service contract materially more expensive than competing alternatives, and is unsupported by any economic analysis. If the Commission is concerned with the length of the contract, it could impose one or more of the Proposed Conditions 6 through 9.</p>		Agenda Memo., at 18-21; Supp. Agenda Memo., at 6-10.
COMMISSION ALTERNATIVES		
Alternative One: Find that proposed length of the contracts is reasonable.		
Alternative Two: Find that the proposed length of the contracts is not reasonable, and adopt applicants’ proposal to shorten the length to 30 years while keeping a 60-year depreciation schedule.		

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Alternative Three: Find that the proposed length of the contracts is not reasonable and impose Proposed Condition 6, 7, 8 and/or 9 to balance risk.

Alternative Four: Decline to make a finding as to the reasonableness of the length of the contracts, but consider this, among other factors, when determining whether it is reasonable and prudent for the applicants to enter into the long-term storage service and interstate gas transportation agreements.

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Issue 2.C.: Are the capital expenditures growth rate assumptions reasonable?

Issue Scope: Applicants used an annual capital expenditures growth rate of 3 percent throughout the life of the proposed transaction. Applicants also used a straight line growth rate.

The NPV savings is very sensitive to the growth rate in operations, maintenance, and capital expenditures. Commission staff studied the impact of three higher growth rates in the applicants' economic model to test its potential impact on the economic viability of the proposed transaction. Using a growth rate of 5 percent would result in \$133 million, or 18 percent, in NPV savings. Using a growth rate of 7 percent would result in \$11 million, or 2 percent, NPV savings. And using a growth rate of 9 percent would result in (-\$245 million), or (-34 percent), in NPV savings.

PARTY POSITIONS	AMOUNT*	TRANSCRIPT REFERENCES
<p>Applicants:</p> <p>Applicants support Commission Alternative 1 below.</p> <p>The growth rate assumptions are reasonable. Commission staff's study of higher cost escalation rates is incomplete because the higher rates were applied only to Bluewater's costs. Regardless, Commission staff's stress testing shows that the proposal will generate savings in all but the most extreme cases in which Bluewater's costs escalate at 9 percent for 60 years while the cost of other storage in the market increases at only 3 percent.</p>	N/A	Applicants Comments on Staff Memo., at 11-12.
<p>Commission Staff: Commission staff's evaluation of the escalation rate demonstrates the importance of this particular assumption to the NPV and to any conclusion the Commission may reach regarding the reasonableness and prudence of the applicants' entering into 60-year storage contracts.</p>		Agenda Memo., at 21-22; Supp. Agenda Memo., at 7-8.
COMMISSION ALTERNATIVES		
Alternative One: The applicants' assumed capital expenditure growth rate assumption is reasonable.		
Alternative Two: The applicants' assumed capital expenditure growth rate assumption is not reasonable and impose Proposed Condition 6, 7, 8 and/or 9 to balance risk.		
Alternative Three: Decline to make a specific finding as the reasonableness of this assumption, but consider this, among other		

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factors, when determining whether it is reasonable and prudent for the applicants to enter into the long-term storage service and interstate gas transportation agreements.

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Issue 3: What should the cost threshold be triggering Commission review and approval for recovery in rates for capital expenditures at the Bluewater facility?

Issue Scope: Applicants proposed that the Commission will have an opportunity to review and approve the recovery in rates of material capital expenditures, which the applicants define as those in excess of \$7.5 million. The applicants determined this amount based on the current Certificate of Authority (CA) natural gas threshold of \$2.5 million multiplied by three since there are three applicants.

Commission staff proposed that the Commission consider reducing the cost threshold for approval of future capital expenditures threshold from \$7.5 million to \$2.5 million.*

*This proposed condition was inadvertently omitted from the list of conditions at the end of the Agenda Memo.

PARTY POSITIONS	AMOUNT*	TRANSCRIPT REFERENCES
<p>Applicants:</p> <p>Applicants support Commission Alternative 1 below.</p> <p>Applicants would agree to reduce the threshold for capital expenditures to \$2.5 million instead of \$7.5 million, provided that the Commission makes clear in its order that it is making no determination as to the application of the cost threshold to individual utilities under Wis. Stat. § 196.49(5g)(ar)1m. Further, to reduce the risk to customers of cost overruns for capital projects at the Bluewater facility, Applicants propose Alternative Condition 3: “The Gas Utilities agree to amend the gas storage agreements to provide that upon their approval of a significant capital expenditure exceeding \$2.5 million, the Gas Utilities’ obligation to compensate BGS for the expenditure will be limited to BGS’s actual expenditure or the approved amount plus 10%, whichever is less.”</p>	N/A	Applicants Comments on Staff Memo., at 7-8; Applicants’ Reply Comments, at 15-16.

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Commission Staff: Reducing the threshold would be consistent with Wis. Stat. § 196.49(5g)(ar)1m which establishes that the estimated gross cost of a proposed project is to be used when determining whether a project exceeds the CA cost threshold.		Agenda Memo., at 6-7; Supp. Agenda Memo., at 8.
COMMISSION ALTERNATIVES		
Alternative One: Reduce the cost threshold with the clarifications requested by the applicants and adopt Alternative Condition 3 as proposed by applicants.		
Alternative Two: Reduce the cost threshold without the requested clarifications.		
Alternative Three: Do not reduce the cost threshold.		
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Issue 4: Is it reasonable and prudent for the applicants to recover their allocated portion of the costs to acquire, operate and maintain the Bluewater facility in their purchase gas adjustment clause (PGAC)?

Issue Scope: Applicants propose to recover firm storage reservation charges and transportation contract charges through their respective PGAC. The Commission developed PGACs to correct over-recovery or under-recovery of commodity-related gas costs, which generally include storage and transportation costs (but not plant or other assets) either because of changes in the cost of gas supplies or customer usage different than anticipated in base rates.

One of the criteria for recovery of a cost through the PGAC is that such recovery balances the sharing of risk and reward between shareholders and ratepayers. The applicants believe that recovering the storage and transportation costs associated with the Bluewater facility through the PGAC is appropriate because shareholders forego the opportunity to invest capital elsewhere for 60 years, while ratepayers acquire storage facilities at costs consistent with other utility investments.

Commission staff did not have any concern with recovering the proposed transportation contracts through the PGAC, but did identify a potential area of concern with recovering the storage contracts through the PGAC in that ratepayers may bear all the risk associated with the 60-year contracts, and the applicants would be guaranteed recovery regardless of how the market may change. If the Commission decides that recovery of the storage contracts through the PGAC is appropriate, Commission staff proposed a condition under which the Commission would reevaluate the storage contracts under a used and useful standard every 3 years.

Commission staff further proposed that the Commission may wish to recover the storage contracts through base rates, rather than the PGAC, which may more appropriately balance risk and reward. If the Commission decides that the storage contracts should be recovered strictly through base rates, Commission staff proposed treating the proposed transaction as an operating lease on the applicants' books, which allows the applicants to reflect their interest in the storage facilities without implying ownership. If the Commission finds that it is reasonable and prudent to recover the storage contract costs through base rates, Commission staff proposed that the Commission may wish to allow the applicants to either defer the costs or recover them through their PGACs until each of the applicant's next full rate case.

PARTY POSITIONS	AMOUNT*	TRANSCRIPT REFERENCES
Applicants: Applicants support Commission Alternative 1 or 4 below.	N/A	Application, at 27; Applicants Comments on Staff Memo., at 18-20; Applicants' Reply Comments, at 16-17.

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<p>Recovery of the proposed transactions transportation and storage costs through the PGAC is appropriate because under the proposed transaction, reliable service would be maintained; the sharing of risk and reward would be balanced between shareholders and ratepayers; appropriate price signals would be sent; the transition to workable markets will not be unduly hindered; the lowest reasonable cost of gas will be achieved; the Commission will have detailed and timely information; and the need for retrospective review of utility transactions will be minimized.</p> <p>Commission staff's proposed reevaluation condition is unnecessary and its application of the used and useful standard would run afoul of Wisconsin's prudent investment standard. In the event that the Commission determined in the future that it would be reasonable to move the recovery of certain costs from the PGACs to base rates (or vice versa), there must be an opportunity for the Gas Utilities to change their base rates accordingly. Because this is usually only possible during a base rate case and because base rate cases do not occur on a triennial basis, a triennial review of PGACs could lead to timing discrepancies resulting in deferrals of costs or refunds. The Gas Utilities recommend that any Commission review of PGAC scope take place in base rate proceedings where both base and PGAC rates are determined concurrently. To that end, the Applicants propose Alternative Condition 4: "The Gas Utilities shall recover their costs incurred under the gas storage agreements under their PGACs until their next base rate cases. At that time the Commission will review whether recovery through the PGAC is appropriate."</p>		
<p>CUB: To the extent that cost recovery is independent of the applicants' base rate cases and is essentially guaranteed, it appears that the applicants would lack any incentive to work with their affiliate to keep costs low or to seek additional revenues from opportunity sales. Recovery of storage costs through base rates will allow the Commission to set natural gas rates based on applicants' load and total costs, rather than total rate case costs minus BGH storage agreement costs. It would seem this would give the Commission the flexibility to push some total gas revenue requirement</p>		<p>CUB Comments on Memorandum, at 8-11.</p>

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cost back onto shareholders to the extent total costs are not supported by total load. In exchange for this cost risk sharing, shareholders would retain any opportunity sales and benefits from increased sales. If the Commission agrees storage agreement costs must be recovered in rate cases, then CUB suggests the Commission order storage agreement costs be deferred, with carrying costs at the short-term debt rate, until each applicant's next full rate case. Alternatively, if the Commission adopts applicants' proposal to use the PGAC, CUB supports the proposed used and useful review of the storage agreements every 3 years. It is unclear to CUB whether such a used and useful review provides the same certainty and robustness of ratepayer protection as staff identifies if storage costs are recovered through the rate case process.		
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WIEG: WIEG is indifferent to whether the proposed transaction's costs are recovered through the PGAC or through base rates.		WIEG Comments on Agenda Memo., at 3.
Commission Staff: If the applicants are permitted to recover the gas storage contracts on a one-for-one basis through their PGACs, the applicants' ratepayers bear all the risk associated with the 60-year contracts. The applicants would be guaranteed recovery of all charges incurred under the gas storage contracts regardless of how the market may change, and the ratepayers would be required to pay for such contracts even if they prove uneconomic in the future. If the Commission determines that recovery of storage costs through the PGAC is appropriate, it may wish to reevaluate that decision every 3 years under the used and useful standard. Recovery of gas storage agreement costs through base rates may more appropriately balance risk and reward among shareholders and ratepayers. Including these gas storage contract costs in base rates does not guarantee full recovery of all costs, but would allow the applicants a reasonable opportunity to recover prudently incurred costs under their contracts. If the Commission decides that the storage contract costs be recovered strictly through base rates, treatment of the proposed transaction as an operating lease on the applicants' books allows the applicants to reflect their interest in the storage facilities without implying ownership. If the Commission finds that it is reasonable and prudent to recover the gas storage contract costs through base rates, the Commission may wish to allow the applicants to either defer the costs or recover them through their PGACs until each of the applicant's next full rate case.		Agenda Memo., at 26-31; Supp. Agenda Memo., at 10-11.
COMMISSION ALTERNATIVES		
Alternative One: Recover the storage contracts through the PGAC without Commission staff's proposed reevaluation condition.		
Alternative Two: Recover the storage contracts through the PGAC with Commission staff's proposed reevaluation condition.		
Alternative Three: Recover the storage contracts as an operating lease through base rates, with either deferral until the applicants' next rate cases or recovery through the PGAC until the applicants' next rate cases.		
Alternative Four: The Gas Utilities shall recover their costs incurred under the gas storage agreements under their PGACs until their next base rate cases. At that time the Commission will review whether recovery through the PGAC is appropriate.		
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Issue 5: Is it reasonable to recover the proposed transaction's costs only from sales customers?

Issue Scope: Applicants propose to initially recover their net storage costs from retail sales based upon annual demand requirements, but may propose in future rate proceedings to collect a portion of the net Bluewater storage costs from transportation customers as an appropriate cost of providing daily balancing service.

PARTY POSITIONS	AMOUNT*	TRANSCRIPT REFERENCES
<p>Applicants:</p> <p>Applicants support Commission Alternative 2 below.</p> <p>Because the Gas Utilities will have access to their contracted storage for balancing throughout the year, the Gas Utilities propose to initially recover their net storage costs from retail sales based upon annual demand requirements. The Gas Utilities may propose in future rate proceedings to collect a portion of the net Bluewater storage costs from transportation customers as an appropriate cost of providing daily balancing service or other support services to transporters.</p>	N/A	Application, at 27; Reply Comments at 17.

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<p>WIEG: WIEG supports the applicants’ proposal to recover the cost of the Proposed Transaction only from sales customers and not transportation customers, whether cost recovery occurs via the Gas Utilities’ respective PGAs or base rates. Recovery of the Proposed Transaction costs only from sales customers is appropriate because the Gas Utilities have not demonstrated that the Proposed Transaction will actually provide storage service to transportation customers, nor have the Gas Utilities demonstrated that the Proposed Transaction is an economic storage alternative for transportation customers that have market-based storage options available to them. As a result, it is appropriate to collect the Proposed Transaction acquisition costs only from sales customers. It would be inappropriate for the Gas Utilities to force transportation customers of the Gas Utilities to pay for storage service from the Bluewater facility in lieu of market-based options available to transportation customers.</p>		<p>WIEG Comments on Agenda Memo., at 3-4.</p>
<p>Commission Staff: WIEG’s points are valid. However, Commission staff notes that while the applicants indicated that the proposed transaction would benefit sales customers at the outset, they also indicated that the proposed transaction could benefit transportation customers in the future. For this reason, any Commission decision on which customer classes should pay for the proposed transaction’s costs may be premature at this time. Alternatively, if the Commission finds it appropriate to determine which customer classes should pay for the proposed transaction’s costs in this docket, the Commission may wish to leave open the possibility of other customer classes paying for the proposed transaction’s costs in the future.</p>		<p>Supp. Agenda Memo., at 11.</p>
<p>COMMISSION ALTERNATIVES</p>		
<p>Alternative One: Recover the proposed transaction’s costs only from sales customers.</p>		
<p>Alternative Two: Recover the proposed transaction’s costs only from sales customers now, but leave open the possibility of recovering from transportation customers in the future.</p>		
<p>Alternative Three: Decline to expressly decide which customer classes should pay for the proposed transaction’s costs in this docket.</p>		

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Notes:

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